

## Long Term Financial Planning

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. Long-term financial planning is a strategic process that provides governments with the insights and information needed to establish multi-year budget solutions and financial policies and actions that maintain good fiscal health. The County creates a five-year financial forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County, and plan for the provision of services, capital assets, and infrastructure. It also helps the County to understand the fiscal challenges ahead and the need to establish priorities.

The forecast is updated annually and is not a budget. It does not establish policy or priorities; it simply summarizes fiscal capacity. The forecast identifies key factors that affect the County's fiscal outlook and assesses how difficult balancing the budget may be in the future.

The forecast is developed using a baseline environment, in which revenues and expenditures are projected based primarily on trend analysis, specific circumstances and present level of services provided by the County. The forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions or changing circumstances. As such, this forecast highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

## Significant Issues Impacting the General Fund

Mandated program shifts from the State, funded primarily with sales tax revenue, increase the County's exposure to sales tax fluctuations. Sales tax revenue tends to be more volatile and quicker to react to changes in the economy than property tax revenue.

Retirement costs are projected to continue to increase in 2015-16 due to the impact of a 0.25% decrease in the Retirement Board's earnings assumption, and a change in the mortality tables. Projected increases also include the multi-year impact of a year to date shortfall in earnings.

Staffing for the High Desert Detention Center will require an additional \$27.6 million in funding through 2018-19.

The Affordable Care Act will impact Human Services departments and the Arrowhead Regional Medical Center as they are primary providers of Medi-Cal services. The longer term impacts of the Affordable Care Act remain difficult to forecast.



**TABLE 1**  
**FIVE-YEAR FINANCIAL FORECAST**  
**DISCRETIONARY GENERAL FUNDING**  
**FISCAL YEARS 2015-16 THROUGH 2019-20**  
**(dollars in millions)**

	<u>2015-16</u>	<u>Total Change</u> <u>2015-16 through 2019-20</u>
<b><u>Ongoing Revenue Changes:</u></b>		
Property Tax	\$40.4	\$91.4
Proposition 172 Sales Tax	8.8	23.0
AB109 Realignment Revenue	9.1	9.1
Other Revenue	(1.9)	3.3
<b>Total Ongoing Revenue Change</b>	<b><u>\$56.4</u></b>	<b><u>\$126.8</u></b>
<b><u>Ongoing Cost Changes:</u></b>		
Retirement	(11.9)	(29.4)
Other MOU Costs	(6.0)	(6.2)
County Fire Subsidy Costs	(2.1)	(2.1)
Other Costs	(4.4)	(6.7)
Transportation Operations/Pavement Management Program (PCI)	(8.8)	(14.2)
Recommended Department Policy Items	(12.4)	(12.4)
<b>Total Change in Costs</b>	<b><u>(45.6)</u></b>	<b><u>(71.0)</u></b>
<b>Yearly Operating Available</b>	<b><u>\$10.8</u></b>	<b><u>\$55.8</u></b>
<b><u>Ongoing Costs Not Funded in the Ongoing Budget Plan</u></b>		
High Desert Detention Center Staffing	0.0	(27.6)
Glen Helen SB1022 Housing Program	0.0	(1.2)
<b>Subtotal Ongoing (Deficit)/Surplus including Ongoing Costs Not Funded</b>	<b><u>10.8</u></b>	<b><u>27.0</u></b>
Hypothetical Memoranda Of Understanding (MOU) Costs	<u>0.0</u>	<u>(44.7) to (67.8)</u>
<b>Annual Ongoing (Deficit)/Surplus including Ongoing Costs Not Funded</b>	<b><u>\$10.8</u></b>	<b><u>\$(17.7) to (40.8)</u></b>

Note: The Five-Year Financial Forecast represents future incremental costs and changes in revenues for the referenced fiscal year.

Table 1 displays the County's 2015-16 detailed financial forecast and summarizes the County's five-year financial forecast. The forecast reflects ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund. The forecast shows that ongoing revenues are increasing due to projected increases in property tax and Proposition 172 sales tax revenue. Ongoing Cost Changes reflect the cost to maintain current service levels and the cost of Department Policy Items. After accounting for these changes, the Yearly Operating Available is positive for the next five fiscal years, but appears to only support minimal increases in services or labor costs.

In recent years the County has identified other ongoing costs not previously included in the five year forecast that need to be addressed. These costs are identified in Table 1 as Ongoing Costs Not Funded in the Ongoing Budget Plan. After including these cost components, the County's General Fund has a cumulative structural surplus of \$27.0 million over the next five fiscal years.

However, this forecast also illustrates the need for continued caution in allocating this surplus in light of upcoming and current negotiations with employee groups. The surplus could quickly revert to a deficit when potential



Memoranda of Understanding (MOU) costs are included. Costs associated with future negotiations have been estimated and identified above as Hypothetical MOU Costs.

### **2015-16 Recommended Budget**

The 2015-16 Recommended Budget is structurally balanced, with \$10.8 million of ongoing funding unallocated and available to fund future ongoing costs.

#### **2015-16 Ongoing Revenue Changes**

As reflected in the Five Year Financial forecast, the County anticipates increased revenues of \$56.4 million in 2015-16.

**Property Tax Revenue**, including pass-throughs from redevelopment agencies, is projected to increase due to higher than anticipated revenue in 2014-15 and 3% growth in assessed valuation (AV) in 2015-16.

**Proposition 172 Sales Tax** revenue is projected to increase 5.6% over the 2014-15 budgeted amount based on projections from a local economist and current year trends. This revenue is derived from a half-cent sales tax that provides funding for public safety services.

**AB 109 Realignment Revenue** reflects unanticipated AB 109 revenue for 2015-16, based on revised estimates from the State. AB 109 Realignment Revenue is funded with State sales tax revenue that is transferred to counties to support programs shifted in Public Safety Realignment.

#### **2015-16 Ongoing Cost Changes**

As reflected in the Five Year Financial Forecast, the County anticipates an increase in Ongoing Costs of \$45.6 million in 2015-16. Ongoing Cost Changes reflect the cost to maintain current service levels.

**Retirement** costs are projected to increase by \$11.9 million primarily due to a decrease in the Retirement Board's assumed earnings rate from 7.75% to 7.50% and a change in the mortality tables.

**Other MOU Costs** increase reflects the 2015-16 cost of approved compensation changes pursuant to negotiated MOUs with employee groups.

**County Fire Subsidy Costs** increase includes the cost of a contract with the Kern County Fire Department for fire protection services in northwest San Bernardino County, annual fixed asset replacement costs, the conversion of 12 limited-term positions (6 Engineers and 6 Firefighters) to regular positions, and non-grant funded costs such as supervision of the volunteer program and the webEOC in the Office of Emergency Services.

**Other Costs** increases are primarily a result of increases in risk management premiums for Auto Liability, General Liability, and Law Enforcement Liability. These increased costs are partially offset by ongoing cost savings as a result of the final maturity of the Justice Center/Airport Debt.

**Transportation Operations/Pavement Management Program (PCI)** represents an ongoing contribution to sustain County maintained roads in good to very good condition. In previous years, this cost was included in the Ongoing Costs Not Funded in the Ongoing Budget Plan section of the Five Year Financial Forecast. 2015-16 is the first year where sufficient ongoing resources exist to begin to fund this program on an ongoing basis.

**Recommended Department Policy Items** of \$12.4 million are detailed in the Identified Needs Section of this Recommended Budget Book.





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